GTE

GTE Service Corporation

March 20, 1997

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Mr. William F. Caton
Secretary
Federal Communications Commission
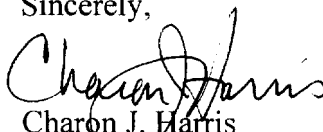1919 M Street, NW Room 222
Washington, D.C. 20554

EX PARTE: **Federal-State Joint Board on Universal Service (CC Docket No. 96-45)**

Dear Mr. Caton:

Yesterday, March 19, Professor Paul Milgrom representing GTE used the attached presentation to discuss GTE's auction proposal in the captioned docket. Also present at the meeting were: Kathleen Abernathy, Marvin Bailey, Glenn Brown, Karen Brinkmann, C. Anthony Bush, Mark Bykowsky, Astrid Carlson, Barbara Cherry, Richard Clarke, Bryan Clopton, Jonathan Cohen, Peter Cramton, Rowland Curry, Pat DeGraba, George Ford, Rachel Forward, Lisa Gaisford, James Gattuso, Charon Harris, Whitney Hatch, Bill Johnston, Michael Katz, Evan Kwerel, Wayne Leighton, Mark Lemler, Elliot Maxwell, Jim McConnaughy, Gail McGuire, David Moore, Barry Nalebuff, Robert Pepper, Scott Randolph, Karen Rose, Gregory Rosston, Bill Sharkey, Thomas Spavins, Timothy Tardiff, Dennis Weller, and John Williams.

Due to the lateness of the meeting, this notice is being filed today. In accordance with Section 1.1206(a)(1) of the Commission's Rules, an original and two copies of this notice are being filed with the Secretary of the FCC. Please let me know if you have any questions.

Sincerely,

Charon J. Harris

Attachment
cc: K. Brinkmann, C.A. Bush, A. Carlson, B. Clopton, J. Cohen, P. DeGraba, E. Kwerel, E. Maxwell, G. McGuire, R. Pepper, K. Rose, G. Rosston, W. Sharkey, T. Spavins, J. Williams.

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An Auction Proposal

for

universal
service

Paul Milgrom

March 19, 1997

Preconditions

- *Quid Pro Quo*: support payments for obligation to serve
- Small size of service areas
  - » Avoids cherry picking
  - » Allows flexible business plans
- Unbundled element pricing
- ILEC exit conditions

Process

- Cost-based initial support levels
  - » cost basket approach
- Nominations
  - » Rules for entrants
  - » Rules for ILECs
- Auction
- Post auction implementation

Auction Rules

- **Solution to an Optimal Auction problem**
  - » sealed bid auction
  - » low bidder receives support
  - » "close enough" bidders also supported
    - Possible variations for facilities-based entry
  - » support equals highest accepted bid
- **Additional rules**
  - » zeroing the subsidy
  - » withdrawal rule: lowest winning bidder has first option to withdraw

Advantages

- Reduces subsidies
  - » competition "for" the market
- Benefits consumers
  - » competition "in" the market
- Encourages facilities-based entry where economically feasible

Cost Synergies

- Defined as percentage cost increase:

$$\frac{IC(A)+IC(B)-IC(A\&B)}{IC(A\&B)}$$

- Wireline technology:
    - » index values in tested sample range from 0.0% to 8.1%
    - » estimates based on BCM2
- Wireless and hybrid fiber-coax not yet evaluated

Economies of Density

- Depends on facility sharing arrangements
  - » wireless entry
  - » wireline entry
- Accommodated by
  - » bid withdrawals, or
  - » bids for sole and shared sourcing